

No.7/42/DPNP

Jakarta, September 6, 2005

CIRCULAR LETTER
to
ALL COMMERCIAL BANKS
CONDUCTING CONVENTIONAL BUSINESS
IN INDONESIA

Subject : Statutory Reserves Requirement at Bank Indonesia in Rupiahs
and Foreign Currencies for Commercial Banks

In regard to the enactment of Bank Indonesia Regulation Number 6/15/PBI/2004 concerning the Statutory Reserve Requirement at Bank Indonesia in Rupiahs and Foreign Currencies for Commercial Banks (State Gazette of the Republic of Indonesia Number 55 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4390) as amended by Bank Indonesia Regulation Number 7/29/PBI/2005 (State Gazette of the Republic of Indonesia Number 80 of 2005, Supplement to the State Gazette of the Republic of Indonesia Number 4529), it is deemed necessary to provide further explanation of some of the provisions in the above Bank Indonesia Regulation as follows:

I. GENERAL REVIEW

Monetary stability is essential to the creation of conducive, stable economic conditions. One of the monetary instruments employed by Bank Indonesia to maintain monetary stability is the Statutory Reserve Requirement for banks in Indonesia.

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A number of economic indicators point to the need for changes in Bank Indonesia policy pertaining to the regulation of rupiah liquidity, and especially rupiah liquidity in the banking system. In this regard, Bank Indonesia has deemed it necessary to change the calculation of additional Statutory Reserves in rupiahs based on Deposit Funds and the Loan to Deposit Ratio (LDR). To compensate for the change in the calculation of additional Statutory Reserves, Bank Indonesia pays demand deposit interest on these additional Statutory Reserves.

II. DEMAND DEPOSIT INTEREST

In accordance with Article 11 paragraph (1) of Bank Indonesia Regulation Number 6/15/PBI/2004 concerning the Statutory Reserve Requirement at Bank Indonesia in Rupiahs and Foreign Currencies for Commercial Banks as amended by Bank Indonesia Regulation Number 7/29/PBI/2005, Bank Indonesia shall pay demand deposit interest on the portion of the balance of the Rupiah Account of the Bank designated for compliance with the additional Statutory Reserve Requirement as referred to in Article 3 paragraph (3) and paragraph (4). This interest is paid at the rate of 5.5% (five point five percent) per annum.

The demand deposit interest referred to herein is the effective annual rate determined on the basis of a daily compounding period over 360 (three hundred and sixty) days according to the following formula:

$$\text{Effective annual interest rate} = \left(1 + \left(\frac{\text{Annual interest rate}}{360 \text{ days}} \right) \right)^{360 \text{ days}} - 1$$

Accordingly, the demand deposit interest paid on the portion of the balance of the Rupiah Account of the Bank designated for compliance with the additional Statutory Reserve Requirement in rupiahs is 0.0149% per day.

Demand deposit interest as referred to above shall be calculated for each working day based on the balance of the Rupiah Account of the Bank that is recorded in and obtained from the Bank Indonesia accounting system. Crediting of demand deposit interest to the Rupiah Account of the Bank, as referred to in Article 17 of Bank Indonesia Regulation Number 6/15/PBI/2004 concerning the Statutory Reserve Requirement at Bank Indonesia in Rupiahs and Foreign Currencies for Commercial Banks as amended by Bank Indonesia Regulation Number 7/29/PBI/2005, shall be performed as follows:

- a. on the 8th day of the month for demand deposit interest from the 1st day through the 7th day of the same month;
- b. on the 16th day of the month for demand deposit interest from the 8th day through the 15th day of the same month;
- c. on the 24th day of the month for demand deposit interest from the 16th day through the 23rd day of the same month;
- d. on the 1st day of the following month for demand deposit interest from the 24th day through the end of the previous month.

Debiting of the Account of the Bank, as referred to in Article 17 of Bank Indonesia Regulation Number 6/15/PBI/2004 concerning the Statutory Reserve Requirement at Bank Indonesia in Rupiahs and Foreign Currencies for Commercial Banks as amended by Bank Indonesia Regulation Number 7/29/PBI/2005, in consequence of imposition of sanctions for shortfall in the Statutory Reserve Requirement shall be performed on the following working day after the date of the infringement of the Statutory Reserve Requirement.

If the dates for crediting the demand deposit interest and the date for debiting the Account of the Bank fall on a ~~Saturday, Sunday, or official~~

holiday, the crediting and debiting of the Account balance of the Bank shall be performed by Bank Indonesia on the following working day.

In the case of error in crediting or debiting pertaining to payment of demand deposit interest or imposition of sanctions by Bank Indonesia for infringement of the Statutory Reserve Requirement, Bank Indonesia may directly debit or credit the account of the bank concerned as stipulated in the provisions concerning the Bank Indonesia-Real Time Gross Settlement System.

Sample calculation of the Statutory Reserve Requirement, demand deposit interest, and penalty for infringement of the Statutory Reserve Requirement: Bank A has Rp 55,000,000,000,000.00 (fifty-five trillion rupiahs) in daily average Deposit Funds in rupiahs during the reporting period from the 8th day through the 15th day of January and the LDR at the end of the second weekly reporting period is 80%.

The daily Statutory Reserve Requirement for the reporting period commencing from the 24th day through the end of January is:

1. 5% (five percent) of Rp 55,000,000,000,000.00 (fifty-five trillion rupiahs), i.e., Rp 2,750,000,000,000.00 (two trillion seven hundred and fifty billion rupiahs), as referred to in Article 3 paragraph (1) of Bank Indonesia Regulation Number 6/15/PBI/2004 concerning the Statutory Reserve Requirement at Bank Indonesia in Rupiahs and Foreign Currencies for Commercial Banks as amended by Bank Indonesia Regulation Number 7/29/PBI/2005; plus
2. 3% (three percent) of Rp 55,000,000,000,000.00 (fifty-five trillion rupiahs), i.e., Rp 1,650,000,000,000.00 (one trillion six hundred and fifty billion rupiahs), comprising additional Statutory Reserves based on Deposit Funds as referred to in Article 3 paragraph (3) letter d of Bank Indonesia Regulation Number 6/15/PBI/2004 concerning the Statutory Reserve Requirement at Bank Indonesia in Rupiahs and

Foreign Currencies for Commercial Banks as amended by Bank Indonesia Regulation Number 7/29/PBI/2005; plus

3. 1% (one percent) of Rp 55,000,000,000,000.00 (fifty-five trillion rupiahs), i.e., Rp 550,000,000,000.00 (five hundred and fifty billion rupiahs), comprising additional Statutory Reserves based on the LDR as referred to in Article 3 paragraph (4) letter b of Bank Indonesia Regulation Number 6/15/PBI/2004 concerning the Statutory Reserve Requirement at Bank Indonesia in Rupiahs and Foreign Currencies for Commercial Banks as amended by Bank Indonesia Regulation Number 7/29/PBI/2005.

The Balance of the Rupiah Account of Bank A at Bank Indonesia on:

- January 24 is Rp 4,950,000,000,000.00 (four trillion nine hundred and fifty billion rupiahs) or 9% of Deposit Funds in rupiahs;
- January 25 is Rp 4,950,000,000,000.00 (four trillion nine hundred and fifty billion rupiahs) or 9% of Deposit Funds in rupiahs;
- January 26 is Rp 4,565,000,000,000.00 (four trillion five hundred and sixty-five billion rupiahs) or 8.3% of Deposit Funds in rupiahs;
- January 27 is Rp 5,555,000,000,000.00 (five trillion five hundred and fifty-five billion rupiahs) or 10.1% of Deposit Funds in rupiahs;
- January 28 is Rp 7,051,000,000,000.00 (seven trillion and fifty-one billion rupiahs) or 12.82% of Deposit Funds in rupiahs;
- January 29 is Rp 6,050,000,000,000.00 (six trillion and fifty billion rupiahs) or 11% of Deposit Funds in rupiahs;
- January 30 is Rp 4,950,000,000,000.00 (four trillion nine hundred and fifty billion rupiahs) or 9% of Deposit Funds in rupiahs;
- January 31 is Rp 4,950,000,000,000.00 (four trillion nine hundred and fifty billion rupiahs) or 9% of Deposit Funds in rupiahs.

It is assumed that the dates of January 24, 25, and 31, and February 1 are holidays.

The average JIBOR overnight rate on January 26 is 8%.

No demand deposit interest shall be paid on the balance of the Rupiah Account on the dates of January 24, 25, and 31, because these dates do not fall on working days. The calculation of demand deposit interest for each of the dates of January 27, 28, 29, and 30 is as follows:

0.0149% of the portion of the Rupiah Account of the Bank for the additional Statutory Reserve Requirement; i.e.,

$$0.0149\% \times \text{Rp } 2,200,000,000,000.00 = \text{Rp}327,800,000.00$$

The penalty for the shortfall in the Statutory Reserve Requirement on January 26 is calculated as follows:

$$\frac{\text{Rp } 385,000,000,000.00 \times 1.25 \times 8 \times 1 \text{ days}}{360 \times 100} = \text{Rp}106,944,444.44$$

Bank Indonesia shall credit the demand deposit interest for each of the dates of January 27, 28, 29, and 30 to the Rupiah Account of the Bank on February 2, because February 1 falls on a holiday. The demand deposit interest credited to the Rupiah Account of the Bank on February 2 is:

$$4 \times \text{Rp}327,800,000.00 = \text{Rp}1,311,200,000.00$$

The debiting of the Rupiah Account of the Bank for the penalty for shortfall in the Statutory Reserve Requirement on January 26 is Rp 106,944,444.44 shall be performed on the following working day, i.e., January 27.

Rounding off for the purposes of debiting or crediting of Bank Demand Deposit Accounts by Bank Indonesia shall be performed with regard to the Bank Indonesia accounting system.

III. CONCLUDING PROVISIONS

With the enactment of this Circular Letter of Bank Indonesia, Circular Letter of Bank Indonesia Number 6/26/DPNP dated June 30, 2004, concerning the Statutory Reserves at Bank Indonesia in Rupiahs and Foreign Currencies for Commercial Banks is revoked and declared no longer valid.

The provisions in this Circular Letter of Bank Indonesia shall come into force on September 8, 2005.

For the public to be informed, it is ordered that this Circular Letter of Bank Indonesia be promulgated in the State Gazette of the Republic of Indonesia.

Kindly be informed.

BANK INDONESIA,

MAMAN H. SOMANTRI
DEPUTY GOVERNOR